

Saregama India Limited

September 17, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper ¹	-	40.00	[ICRA]A1+; assigned
LT- Fund Based limits	17.00	0.00	[ICRA]A(Stable); ISSUER NOT COOPERATING; withdrawn
ST- Non-fund based	1.00	0.00	[ICRA]A1; ISSUER NOT COOPERATING; withdrawn

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 40.0-crore² Commercial Paper Programme of Saregama India Limited (SIL). ICRA has also withdrawn the ratings of [ICRA]A (pronounced ICRA A) and [ICRA]A1 (pronounced ICRA A one) ISSUER NOT COOPERATING, outstanding on the Rs. 18.00-crore bank facilities of SIL³. The rating has been withdrawn as per the request of the company and the confirmation of 'No Objection' provided by the lender. The rating withdrawal is in accordance with ICRA's policy on Withdrawal and Suspension of Credit Ratings.

Rationale

The assigned rating considers SIL's status as a company belonging to the RP-SG Group, of which CESC Limited (rated at [ICRA]A1+) is the flagship company, thus leading to a considerable financial flexibility. The rating also considered the company's comfortable financial profile, as indicated by a healthy operating profitability, a conservative capital structure, and comfortable debt protection metrics. The company has extensive experience in the music industry with a strong competitive position as one of India's major music recording and publishing companies with more than 1.2 lakh songs in its library. ICRA notes that the music industry has undergone significant changes over the past decade, with digital content contributing to an increasing share of revenues for music publishers, including SIL. The company has benefited from the same through diversification of its distribution platforms. Moreover, the robust performance of the portable digital music player, Carvaan, during FY2018 as well as in the current financial year is likely to drive the revenue and cash accruals of the company in the near to medium term. Although the company has an established presence in the television serial segment, especially in South India coupled with production of movies for the digital platform, which has led to further diversification of revenues, the share of the same in the total revenue continues to remain low. Thus, the credit profile of the company is primarily determined by its music segment at present.

The ratings, however, remain constrained by the continued financial support extended by SIL to the loss-making operations of its wholly-owned subsidiary, which publishes the magazine, Open. This adversely impacts SIL's overall business returns and cash accruals. ICRA expects such support to continue over the near to medium term. In spite of

¹ While assigning the rating, ICRA notes that the proceeds from the rated CP Programme are intended to be utilized for funding the working capital requirements, as per the objects of the issue. A deviation from the above that has the effect of exerting pressure on the asset-liability position of the company would be a rating sensitivity.

² 100 lakh = 1 crore = 10 million

³ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

acquisition of new music content in recent years, the company's policy to move cautiously in new content acquisition increases its dependence on old catalogue. The music industry is also susceptible to the threat of piracy, rapid technological changes and intense competition, which resulted in content cost escalation, affecting the profitability. Going forward, SIL's healthy cash accruals from the music business, primarily backed by expected higher volume of Carvaan sale and improvement in the publishing and over-the-top (OTT) revenue would be the key credit rating sensitivities.

Key rating drivers

Credit strengths

SIL's status as a company belonging to the RP-SG Group –The RP-SG Group currently holds a 59.11% stake in SIL. Given the established position of the Group, having diversified business interest in Power & Natural Resources, IT & Education, Infrastructure, Retail and Media & Entertainment, SIL enjoys considerable financial flexibility and maintains a healthy relationship with domestic banks.

Extensive experience in the music industry, with a strong competitive position as one of India's major music recording and publishing companies - One of the country's largest music recording and publishing companies, SIL has achieved several milestones. SIL has a music library of approximately 1.20 lakh songs, including those by renowned musicians like Lata Mangeshkar, Asha Bhonsle, Mohammad Rafi, Pandit Hariprasad Chaurasia, R.D. Burman and many other musical stalwarts. Its content includes music recorded in 18 different languages & classical music and it also has the largest music catalogue in India. Most of the company's music is from the 1970s and 80s, enabling it to leverage its collection, given the limited availability of these rare songs.

Robust performance of Carvaan is likely to drive the revenue and cash accruals of the company in the near to medium term- SIL launched the portable digital music player called Carvaan with in-built stereo speakers that comes with preloaded music in Hindi, Tamil, Marathi and Bengali languages in FY2018. While initially it was launched only in India, with a dealer network of over 12,000 outlets, it has been recently launched in the US, the UK and Canada. The sales volume of Carvaan has significantly picked up in the last 4-5 quarters on the back of healthy demand of the product and is likely to drive the revenue and cash accruals of the company in the near to medium term.

Increase in revenue contribution from digital content following the changing trends of the music industry- Over the years, SIL has expanded its business from distribution of music, both in digital and physical mode to producing movies and television content, in line with the changing trends of the music and the entertainment industry. However, music remains the mainstay of the company's business, with around 85-88% of its total revenues coming from the same in FY2018 while television serials/digital films accounted for the balance revenues during the year. The revenue from the music segment in recent years has been supported by the overwhelming performance of Carvaan.

Comfortable financial profile, supported by healthy profitability, conservative capital structure and comfortable debt protection metrics - The operating income improved significantly from Rs 208.16 crore in FY2017 to around Rs 345.61 crore in FY2018, primarily driven by the launch of Carvaan during Q1FY2018. The total revenue generated from Carvaan during FY2018 was Rs 141.20 crore. In addition, the healthy profitability generated from Carvaan improved the operating margin to around 16.02% in FY2018. In the current financial year too, the robust performance of Carvaan, is likely to drive the revenue and cash accruals of the company. The capital structure remained conservative as characterised by a gearing of 0.05 time as on 31st March, 2018. The total debt comprises only working capital loans at present. The company's interest coverage remains healthy at 16.45 times in FY2018. Additionally, coverage indicators remain healthy, with an NCA/Total Debt of 236% and Total Debt/OPBDITA of 0.23 times in FY2018.

Established presence in the television serial segment in South India coupled with increasing presence in films production for digital platform leads to revenue diversification- SIL has an established presence in the television serial segment in South India and has produced over 4,100 hours of television serials in Tamil and Kannada, including successful serials such as 'Chandralekha', 'Valli' and 'Roja'. Since most of these programmes have considerable viewership and record high gross rating points (GRPs), they command favourable advertising rates. The Intellectual Property (IP) of all these serials is owned by Saregama.

Credit weaknesses

Financial support extended by SIL to the loss-making operations of the wholly-owned subsidiary involved in the magazine publishing business adversely impacts SIL's business returns and cash accruals- SIL continues to support the loss-making magazine publishing business of its wholly-owned subsidiary, Open Media Network Private Limited (OMNPL). With SIL makes annual provisions towards such advances made to OMNPL, the same has led to a drag on the company's bottom-line, adversely impacting business returns. The company's ROCE has, therefore, remained in the range of 6.33%-14.65% between FY2014 and FY2018. ICRA expects such support to continue over the near to medium term.

Limited acquisition of new content leading to low market share in new music and increasing dependence on old catalogue; strategy to selectively acquire new music in recent years is likely to mitigate the risk to an extent- SIL is highly dependent on old catalogue of music content with limited acquisition of new content till FY2017. However, the company has started acquiring new music content recently, which is likely to mitigate the risk to an extent, going forward. The company is cautious about acquisition of new music of both Hindi and South Indian movies to increase its presence.

Susceptibility to challenges posed by piracy of music- The nature of operations in the music industry leads to maintenance of intellectual property rights, critical for appropriate levels of revenue generation. Thus, piracy of content through counterfeit media and unauthorised use of proprietary and intellectual property rights resulted in loss of revenue and significantly reduced pricing power for music companies, including SIL.

Industry characterised by intense competition, which resulted in content cost escalation and has keep profitability under check- The music industry is also characterised by intense competition from both new as well as existing players in the film and television media segments, which increases demand for the limited content pool, contributing to an increase in costs for content acquisition. In recent years, several film houses have also established their own music publishing companies to market the music of their produced movies. This is likely to keep the profit margins of music companies, including SIL, under check.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

SIL is one of India's largest music recording and publishing companies. It was initially established as a branch of Electrical & Musical Industries Limited, London (EMI) in 1901, before being taken over by the RP-Sanjiv Goenka Group of Kolkata. The company has several milestones to its credit in the history of recording and publishing Indian music. It produced the first song that was recorded in India in 1902 by Gauhar Jan. It currently has a music library of more than 1.20 lakh songs. Folk and light classical music, especially ghazals, and old Hindi film music, acquired from reputed film houses, form the

backbone of this collection. SIL also has a presence in the television serial segment, especially in South India. Further, the company has started production of pre-loaded music radio, Carvaan, in FY2018, which is performing well in the market.

Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	208.16	345.61
PAT (Rs. crore)	8.13	30.51
OPBDIT/ OI (%)	12.09%	16.02%
RoCE (%)	8.92%	14.65%
Total Debt/ TNW (times)	0.00	0.05
Total Debt/ OPBDIT (times)	0.00	0.23
Interest coverage (times)	10.86	16.45
NWC/ OI (%)	22%	25%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating September 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					October 2017	April 2016	in FY2016
1 Commercial paper	Short-term	40.00	NA	[ICRA]A1+	-	-	-
1 Fund Based Limits	Long-term	17.00	NA	[ICRA]A(stable); ISSUER NOT COOPERATING Withdrawn	[ICRA]A(stable); ISSUER NOT COOPERATING	[ICRA]A(s table)	-
2 Non-Fund Based Limits	Short-term	1.00	NA	[ICRA]A1; ISSUER NOT COOPERATING Withdrawn	[ICRA]A1; ISSUER NOT COOPERATING	[ICRA]A1	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	Unplaced	Unplaced	Unplaced	40.00	[ICRA]A1+ [ICRA]A(Stable)
NA	Fund Based Limits	NA	NA	NA	17.00	ISSUER NOT COOPERATING, Withdrawn
NA	Non-Fund Based Limits	NA	NA	NA	1.00	[ICRA]A1 ISSUER NOT COOPERATING, Withdrawn

Source: Company data

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